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DAN F. ARNETT
CHIEF OF STAFF

174990
S.A. 5

July 28, 2005

VIA HAND DELIVERY

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

RECEIVED

JUL 29 2005

PSC SC
DOCKETING DEPT.

PAID
7/29/05
tool

Re: Application of Melrose Utility Company, Inc., for Adjustments in Rates
and Charges for Water and Sewer Services
Docket No. 2005-74-W/S

Dear Mr. Terreni:

Enclosed for filing please find the original and twenty-five (25) copies of the Direct Testimony and Exhibits of Dawn M. Hipp and Daniel F. Sullivan in the above referenced matter. Please date stamp the extra copy enclosed and return it to me via our courier.

Also, we have served same on all parties of record and enclose a Certificate of Service to that effect.

Please let me know if you have any questions.

Sincerely,

C. Lessie Hammonds

CLH/rng
Enclosures

cc: Robert T. Bockman, Esquire
John F. Beach, Esquire

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ok tool

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2005-74-W/S

2005 JUL 28 PM 4:26
COMMUNICATIONS SECTION
PUBLIC SERVICE COMMISSION

IN RE: Application of Melrose Utility)
Company, Inc. for Approval of an)
Adjustment in Rates and Charges)
For Water and Sewer Services)
_____)

CERTIFICATE OF SERVICE

This is to certify that I, Rena Grant, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **DIRECT TESTIMONY AND EXHIBITS OF DAWN M. HIPPI AND DANIEL F. SULLIVAN** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Robert T. Bockman, Esquire
McNair Law Firm
Post Office Box 11390
Columbia, SC 29211

John F. Beach, Esquire
Ellis Lawhorne & Sims, P.A.
Post Office Box 2285
Columbia, SC 29202-2285



Rena Grant

July 28, 2005
Columbia, South Carolina

**THE OFFICE OF REGULATORY
STAFF**

DIRECT TESTIMONY AND EXHIBITS

OF

DANIEL F. SULLIVAN

RECEIVED

JUL 29 2005

PSC SC
DOCKETING DEPT.



DOCKET NO. 2005-74-W/S

**Application of Melrose Utility Company,
Inc. for Adjustments in Rates and
Charges for Water and Sewer Services**

TESTIMONY OF DANIEL F. SULLIVAN**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2005-74-W/S****IN RE: MELROSE UTILITY COMPANY, INC.**

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Daniel F. Sullivan. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff ("ORS") as an Auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. I received a B.S. Degree in Business Administration, with a major in Accounting, from the University of South Carolina in December 1998. From February 1999 to February 2005, I was employed with the South Carolina State Auditor's Office. In that capacity, I performed audits and reviews of cost reports, filed by institutional providers of Medicaid services, for the South Carolina Department of Health and Human Services. The primary purpose of those reviews was to establish the applicable reimbursement rates to be paid to Medicaid providers for services

1 rendered to qualified Medicaid recipients. In February 2005, I began my
2 employment with ORS.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING**
4 **MELROSE UTILITY COMPANY, INC.?**

5 A. The purpose of my testimony is to set forth findings and recommendations resulting
6 from ORS's review of the application of Melrose Utility Company, Inc. ("MUC") in
7 this docket.

8 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**
9 **TESTIMONY.**

10 A. I have attached the ORS Audit Report related to MUC's Application for a Rate
11 Increase, Docket No. 2005-74-W/S. The contents of the Audit Report were either
12 prepared by me or were prepared under my direction and supervision in compliance
13 with recognized accounting and regulatory procedures for Water and Wastewater
14 utility rate cases.

15 **Q. PLEASE EXPLAIN THE CONTENTS OF THE AUDIT REPORT.**

16 A. As outlined in the Index of the Audit Report, pages 1-3 contain the analysis of MUC
17 and its application. The remaining pages consist of exhibits which were prepared to
18 show various aspects of MUC's operations and financial position. The majority of
19 my testimony will refer to Audit Exhibit DFS-1 - Operating Experience and
20 Operating Margin as shown on page 4 of the Audit Report.

21

22

1 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT DFS-1.**

2 A. Column (1) shows the per book balances of MUC as of November 30, 2004. I
3 verified the per book balances to the books and records of MUC.

4 Column (2) shows the combined accounting and pro forma adjustments designed to
5 normalize MUC's per book operations.

6 Column (3) shows the computation of MUC's combined normalized test year prior to
7 implementing the proposed increase.

8 Column (4) shows expense adjustments for the requested rate increase as calculated
9 by the ORS Audit Department and the associated revenue adjustments calculated by
10 Dawn Hipp of the ORS Water/Wastewater Department.

11 Column (5) shows our computation of the combined normalized test year after
12 accounting and pro forma adjustments, including the proposed rate increase and
13 associated adjustments.

14 **Q. PLEASE ELABORATE ON THE CALCULATIONS IN AUDIT EXHIBIT**
15 **DFS-1 - OPERATING EXPERIENCE AND OPERATING MARGIN.**

16 A. Column (1) shows the per book operating experience of MUC. We computed Total
17 Loss for Return of (\$105,256) based on Total Operating Revenues of \$187,612 less
18 Total Operating Expenses of \$292,868. Total Loss for Return of (\$105,256) and
19 Total Operating Revenues of \$187,612 produced an Operating Margin of (56.10%).

20 In Column (2), our accounting and pro forma adjustments are presented to normalize
21 MUC's test year operations. A description of each adjustment is contained in Audit
22 Exhibit DFS-2.

Column (3) is the sum of Columns (1) and (2) and reflects the As Adjusted figures. The accounting and pro forma adjustments resulted in Total Loss for Return of (\$52,083). Using Total Loss for Return of (\$52,083) and Total As Adjusted Operating Revenues of \$220,326, an Operating Margin of (23.64%) was computed. Column (4) shows the effect of the proposed increase as computed by the Water/Wastewater and Audit Departments. These adjustments are detailed in Audit Exhibit DFS-2. Column (5) shows per book operations as adjusted to normalize the test year and revenues after the proposed increase is added to As Adjusted Revenues. In other words, Column (5) represents per book operations including our proposed adjustments and revenues for MUC's proposed rate increase. Using Total Operating Revenues of \$359,566 and Total Operating Expenses of \$293,933, I computed a Net Operating Income of \$65,633. To this amount, I added Customer Growth of \$1,672 for Total Income for Return of \$67,305. Using Total Income for Return of \$67,305, and Operating Revenues of \$359,566, I computed an Operating Margin of 18.72%.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT DFS-1.

A. The adjustments are as follows:

Adjustments # 1 - # 7 – The Water/Wastewater Department proposes to adjust revenues using test year customer billings and the present rates. Details of these adjustments are shown in Exhibit DMH-6 of Water/Wastewater Specialist, Dawn Hipp.

1 Adjustments # 8 - # 9 – ORS proposes to remove Tap Fees collected during the test
2 year. ORS considers Tap Fees to be Contributions in Aid of Construction.

3 Adjustment # 10 – ORS proposes to reduce Operations & Maintenance expense by
4 (\$15,936) for Equipment Repair amounts that should have been capitalized. ORS
5 followed MUC's policy of capitalizing all asset/equipment expenditures greater than
6 \$1,000.

7 Adjustment # 11 -- ORS proposes to increase Operations & Maintenance expense by
8 \$1,508 to properly reflect Utility Electric expense for the test year. ORS found that
9 MUC had only reported eleven months of Utility Electric expense in its application.

10 Adjustment # 12 – ORS proposes to increase Operations & Maintenance expense by
11 \$7,218 to reflect actual test year expense. ORS found expenses in Operations &
12 Maintenance accounts that were not related to the test year and ORS deducted those
13 unrelated expenses. In addition, ORS found expenses related to the test year that
14 were not included in the application by MUC. The net of these adjustments is an
15 increase to Operations & Maintenance expense of \$7,218.

16 Adjustment # 13 – ORS proposes to increase General & Administrative expense by
17 \$8,464 to properly reflect the amount of salary, payroll taxes and related benefits
18 applicable to the test year. Payroll taxes are included by ORS in General &
19 Administrative expense, rather than Taxes Other Than Income, because
20 documentation provided by MUC did not separate payroll related allocations from
21 Haig Point Utility and Daufuskie Island Properties, LLC into payroll taxes and
22 employee benefits for MUC. This adjustment removes amounts for payroll that were

1 not related to the test year and includes amounts for payroll that were related to the
2 test year but were omitted by MUC. This adjustment also includes an allocation of
3 benefits from Haig Point Utility Company, Inc. that was incorrectly recorded during
4 the test year, and the reclassification of the Gross Receipts Assessment Tax of \$1,487
5 to Taxes Other Than Income.

6 Adjustment # 14 – ORS proposes to reduce General & Administrative expense by
7 (\$2,800) for DHEC fines paid during the test year. Penalties & fines are not
8 allowable for rate making purposes.

9 Adjustment # 15 – ORS proposes to reduce General & Administrative expenses by
10 (\$4,438) to reflect actual test year expense. ORS removed expenses in General &
11 Administrative accounts that were not related to the test year. ORS also found
12 expenses related to the test year that were not included in the application by MUC
13 and ORS included these omitted expenses. The net of these adjustments is a decrease
14 to General & Administrative of (\$4,438).

15 Adjustment # 16 – ORS proposes to reduce General & Administrative expense by
16 (\$2,664) for an adjustment to Bad Debt expense. ORS calculated Bad Debt expense
17 using a factor of 1.5% on MUC's As Adjusted Revenues, excluding Availability
18 Fees.

19 Adjustment # 17 – ORS proposes to adjust for rate case expenses. ORS amortized
20 \$9,718 over 5 years for rate case expenses for which invoices were provided by
21 MUC. MUC has not been in for a rate adjustment since its inception in 1987. ORS
22 had no history to determine a comparable amortization period. Therefore, ORS

1 proposes to amortize the rate case expenses over a reasonable time period for
2 recovery of five years.

3 Adjustment # 18 – ORS proposes to reduce Depreciation and Amortization expense
4 by (\$11,479), due to annualizing depreciation expense for plant in service using rates
5 recommended by the ORS Water/Wastewater Department and removing the
6 amortization of tap fees from depreciation. This adjustment includes the removal of
7 assets that were not adequately supported or could not be identified by MUC during
8 the audit by ORS. This adjustment also includes Depreciation Expense associated
9 with the assets capitalized by ORS in Adjustment #10 and assets capitalized by ORS
10 due to Haig Point Utility Company, Inc. allocations. See Audit Exhibit DFS-3.

11 Adjustment # 19 – ORS proposes to increase Taxes Other Than Income by \$1,487 to
12 reclassify the Gross Receipts Assessment Tax from General & Administrative
13 expense in accordance with the National Association of Regulatory Utility
14 Commissioners (NARUC) Chart of Accounts.

15 Adjustment # 20 – ORS proposes to reduce Taxes Other Than Income by (\$3,000).
16 Property Tax expense for the test year was estimated by MUC resulting in an
17 overstatement of expense of \$3,000. ORS found that the actual Property Tax
18 expense should be \$42.

19 Adjustment # 21 – ORS proposes to decrease gross receipts taxes to reflect As
20 Adjusted Revenue of \$114,246 (Total Revenues of \$220,326 less Availability Fee
21 Revenue of \$106,080). ORS then applied the current gross receipts factor of

\$0.0083772 for a total of \$957 less the per book amount of \$1,487. This resulted in the total adjustment of (\$530).

Adjustment # 22 – ORS proposes to adjust Income Taxes by (\$233) for the As Adjusted Revenues.

Adjustment # 23 – Both ORS and MUC propose to adjust Availability Fee revenues for the proposed increase. ORS's proposed Availability Fees revenue adjustment is \$87,120. This increase in amount was provided by the ORS Water/Wastewater Department. MUC proposed an adjustment to Availability Fee revenues of \$74,220.

Adjustment # 24 – Both ORS and MUC propose to adjust Water/Sewer – Residence revenue for the proposed increase. ORS's proposed Water/Sewer – Residence revenue adjustment is \$15,155. This increase in amount was provided by the ORS Water/Wastewater Department. MUC proposed an adjustment to Water/Sewer – Residence revenue of \$13,685.

Adjustment # 25 – Both ORS and MUC propose to adjust Water/Sewer – Commercial revenue for the proposed increase. ORS's proposed Water/Sewer – Commercial revenue adjustment is \$37,325. This increase in amount was provided by the ORS Water/Wastewater Department. MUC proposed an adjustment to Water/Sewer – Commercial revenue of \$9,523.

Adjustment # 26 – Both ORS and MUC propose to adjust Water – Minimum Usage revenue for the proposed increase. ORS's proposed Water – Minimum Usage revenue adjustment is (\$180). This decrease in amount was provided by the ORS

1 Water/Wastewater Department. MUC proposed an adjustment to Water – Minimum
2 Usage revenue of (\$270).

3 Adjustment # 27 – MUC proposes to adjust Irrigation – Commercial revenue by
4 \$4,878 for the proposed increase. Per Dawn Hipp – Water/Wastewater Department,
5 ORS does not propose an adjustment to Irrigation – Commercial revenue as MUC
6 failed to file public notice of a proposed increase in Irrigation – Commercial rates.

7 Adjustment # 28 – MUC proposes to adjust Irrigation – Residence revenue by \$3,402
8 for the proposed increase. Per Dawn Hipp – Water/Wastewater Department, ORS
9 does not propose an adjustment to Irrigation – Residence revenue as MUC failed to
10 file public notice of a proposed increase in Irrigation – Residence rates.

11 Adjustment # 29 – Both ORS and MUC propose to adjust Sewer – Minimum Usage
12 revenue for the proposed increase. ORS's proposed Sewer – Minimum Usage
13 revenue adjustment is (\$180). This decrease in amount was provided by the ORS
14 Water/Wastewater Department. MUC proposed an adjustment to Sewer – Minimum
15 Usage revenue of (\$270).

16 Adjustment # 30 – ORS proposes to increase General & Administrative expense by
17 \$782 for an adjustment to Bad Debt expense. ORS applied a Bad Debt expense
18 factor of 1.5% to the proposed increase.

19 Adjustment # 31 – ORS proposes to reflect the gross receipts taxes associated with
20 the proposed increase. The ORS adjustment is computed using the ORS Proposed
21 Revenue increase of \$139,240 less Availability Fee revenue of \$87,120, multiplied

1 by the gross receipts factor of \$0.0083772 resulting in an amount of \$437. MUC
2 does not propose an adjustment to gross receipts taxes.

3 Adjustment # 32 – ORS proposes to increase Income Taxes by \$20,305 for the ORS
4 Proposed Revenues. MUC does not propose an adjustment to Income Taxes for the
5 Proposed Increase.

6 Adjustment # 33 – ORS proposes to adjust Customer Growth by \$1,672 for the
7 proposed increase. MUC does not propose an adjustment for Customer Growth.

8 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

9 A. Audit Exhibit DFS-3 shows the Depreciation and Amortization Expense Adjustment.
10 Audit Exhibit DFS-4 shows the Computation of Income Taxes. Audit Exhibit DFS-5
11 shows the Customer Growth Calculation. Audit Exhibit DFS-6 shows the Income
12 Statement for the Test Year Ended November 30, 2004. Audit Exhibit DFS-7 shows
13 the Balance Sheet as of November 30, 2004.

14 **Q. DOES THE COMPANY MAINTAIN ITS BOOKS AND RECORDS IN**
15 **ACCORDANCE WITH PUBLIC SERVICE COMMISSION RULES AND**
16 **REGULATIONS?**

17 A. No. MUC does not utilize the NARUC Chart of Accounts. MUC also failed to
18 allocate expenses between water operations and sewer operations during the test
19 year.

1 **Q. DOES ORS AGREE WITH THE COMPANY'S TREATMENT OF**
2 **AVAILABILITY FEES AS REVENUE?**

3 **A.** Yes. Per MUC's answer to ORS's First Continuing Data Request, MUC collects
4 these fees and they become part of overall revenue used to offset the costs of utility
5 operations. Based on the treatment of Availability Fees by MUC, the exclusion of
6 these fees would greatly understate Operating Revenue and Operating Income. MUC
7 accounted for the revenue in accordance with the NARUC Chart of Accounts, for
8 Guaranteed Revenues Account # 469 for Water Operations and Account # 530 for
9 Sewer Operations, which states that these accounts should be credited with revenue
10 received from developers or other persons for a period of time prior to water service
11 being established.

12 **Q. DOES ORS HAVE ANY RECOMMENDATIONS FOR THE COMPANY?**

13 **A.** Yes. Per the Commission's Order No. 87-1060, issued in Docket No. 86-392-W/S,
14 dated September 25, 1987, MUC "shall maintain its books and records for its sewer
15 operations in accordance with the NARUC Uniform System of Accounts for Class B
16 Sewer Utilities." The Commission also stated in the above referenced order, MUC
17 "shall maintain its books and records for its water operations in accordance with the
18 NARUC Uniform System of Accounts for Class B Water Utilities." ORS
19 recommends that MUC maintain its books and records for water and sewer
20 operations in accordance with the NARUC Uniform System of Accounts for Class B
21 Water and Sewer Utilities, and that MUC separate the water and sewer expenses into
22 the proper water and sewer accounts.

1 **Q. WHAT IS THE RESULTING OPERATING MARGIN COMPUTED BY ORS**
2 **IN THIS CASE?**

3 A. Based on the rates proposed by MUC, the ORS Staff computed an Operating Margin
4 of 18.72%, as computed on Audit Exhibit DFS-1.

5 **Q. DOES ORS AGREE WITH AN 18.72% OPERATING MARGIN?**

6 A. No. ORS witness Dawn Hipp states in her testimony that ORS recommends a 10-
7 15% Operating Margin for MUC. Mrs. Hipp will testify to the reasons for
8 recommending a 10-15% Operating Margin.

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 A. Yes, it does.

DIRECT EXHIBITS

OF

DANIEL F. SULLIVAN

DOCKET NO. 2005-74-W/S

**Application of Melrose Utility
Company, Inc. for Adjustments in
Rates and Charges for Water and
Sewer Services**

**REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2005-74-W/S
MELROSE UTILITY COMPANY, INC.**

**REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2005-74-W/S
MELROSE UTILITY COMPANY, INC.**

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REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2005-74-W/S

MELROSE UTILITY COMPANY, INC.

SYNOPSIS

Amount Requested

Per Melrose Utility Company, Inc. – Service Revenues-----	\$30,948
Per Melrose Utility Company, Inc. – Availability Fees-----	\$74,220
Per ORS – Service Revenues-----	\$52,120*
Per ORS – Availability Fees-----	\$87,120*
Percentage Increase Service Revenues – Per ORS-----	45.62%

Operating Margin

Per Books-----	-56.10%
As Adjusted-----	-23.64%
After Proposed Increase-----	18.72%

*These figures were computed by the Water/Wastewater Department.

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2005-74-W/S

MELROSE UTILITY COMPANY, INC

ANALYSIS

ORS has made a review of the Application of Melrose Utility Company, Inc. ("MUC"), along with certain of MUC's accounting records, relative to its application for authority to increase certain rates and charges as shown in Docket No. 2005-74-W/S.

The company is a water and wastewater utility operating in the state of South Carolina. The Company furnishes both water and sewer service to residential and commercial customers on Daufuskie Island in Beaufort County. The company's home office is located at 421 Squire Pope Road, Hilton Head Island, South Carolina, 29926.

ORS respectfully submits the results of its review as follows:

1. MUC filed an application on March 24, 2005, for approval of rates and charges for water and wastewater services provided to its residential and commercial customers located on Daufuskie Island, South Carolina.
2. This matter is set for public hearing on Thursday, August 25, 2005, at 10:30 a.m.
3. The Company's application uses a test year period ending November 30, 2004.
4. The stock of MUC is wholly owned by Daufuskie Island Properties, LLC, as approved by the Commission's Order No. 2002-823, issued in Docket No. 2002-210-W/S, dated December 5, 2002.
5. MUC is currently operating under Water and Sewer rates and charges approved by Commission Order No. 87-1060, issued in Docket No. 86-392-W/S.

6. In this application, MUC requested additional service revenue of \$30,948, but ORS calculated the requested service revenue to be \$52,120.

ORS prepared the following exhibits that are related to MUC's proposed increase:

AUDIT EXHIBIT DFS-1: OPERATING EXPERIENCE AND OPERATING MARGIN

Shown in this exhibit are MUC's water and sewer operations for the twelve months ended November 30, 2004, with respect to Operating Experience and Operating Margin. The exhibit's format is designed to reflect per book information and applicable accounting and pro forma adjustments necessary to correct or normalize the results of MUC's test year operations.

ORS verified the per book balances to the books and records of MUC. The book figures reflect that Operating Revenues for MUC totaled \$187,612. Total Operating Expenses amounted to \$292,868 resulting in a Net Operating Loss of (\$105,256). Using Total Loss for Return of (\$105,256) and Operating Revenues of \$187,612, ORS computed a per book Operating Margin of (56.10%). The net effect of the Accounting and Pro Forma Adjustments decreased Total Loss for Return from (\$105,256) to (\$52,083), which produces an As Adjusted Operating Margin of (23.64%).

MUC has requested an increase in rates which would produce additional gross annual service revenues of \$52,120 as computed by ORS. ORS adjusted gross receipts taxes and income taxes associated with the proposed increase.

After the proposed increase, Total Operating Revenues amounted to \$359,566 and Total Operating Expenses amounted to \$293,933, producing Net Operating Income for Return of \$65,633. To this amount, ORS added Customer Growth of \$1,672 for Total Income for Return of \$67,305. Using Total Income for Return of \$67,305 and Operating Revenues of \$359,566, ORS computed an Operating Margin of 18.72% after the proposed increase.

AUDIT EXHIBIT DFS-2: EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS

Shown in this exhibit are the details of each accounting and pro forma adjustment necessary to correct or normalize MUC's water and sewer operations and to reflect the proposed increase. For comparative purposes, MUC's and ORS's adjustments are both presented in this exhibit.

AUDIT EXHIBIT DFS-3: DEPRECIATION & AMORTIZATION EXPENSE ADJUSTMENT

Shown in this exhibit is ORS's computation of the depreciation expense adjustment. ORS annualized depreciation expense using rates supplied by the ORS Water/Wastewater Department. ORS reduced annualized depreciation expense for the amortization of cumulative tap fees.

AUDIT EXHIBIT DFS-4: COMPUTATION OF INCOME TAXES

Shown in this exhibit are the computations of corporate state and federal income taxes. ORS used the state tax rate of 5% and federal tax rates of 15%, 25% and 34% for As Adjusted Income and on the After the Proposed Increase Income.

AUDIT EXHIBIT DFS-5: CUSTOMER GROWTH CALCULATION

Shown in this exhibit is the computation of MUC's Customer Growth factor during the test year. ORS computed a growth factor of 2.5478%.

AUDIT EXHIBIT DFS-6: INCOME STATEMENT FOR THE TEST YEAR ENDED NOVEMBER 30, 2004

MUC's Income Statement for the test year ending November 30, 2004 is reflected in this exhibit. ORS verified all balances contained in this statement to the books and records of MUC.

AUDIT EXHIBIT DFS-7: BALANCE SHEET – AS OF NOVEMBER 30, 2004

Shown in this exhibit is the Balance Sheet of MUC as of the end of the test year. ORS verified the balances contained in this statement to the books and records of MUC.

MELROSE UTILITY COMPANY, INC.
OPERATING EXPERIENCE AND OPERATING MARGIN
TEST YEAR ENDED NOVEMBER 30, 2004

Description	(1) Per Books	(2) Accounting & Pro Forma Adjustments	(3) As Adjusted	(4) Effect of Proposed Increase	(5) After Proposed Increase
	\$	\$	\$	\$	\$
<u>Operating Revenues</u>					
Availability Fees	95,580	10,500 (A)	106,080	87,120 (O)	193,200
Water/Sewer - Residence	22,915	878 (B)	23,793	15,155 (P)	38,948
Water/Sewer - Commercial	46,709	29,795 (C)	76,504	37,325 (Q)	113,829
Water-Minimum Use	270	(90) (D)	180	(180) (R)	0
Irrigation - Commercial	10,170	(1,053) (E)	9,117	0 (S)	9,117
Irrigation - Residence	4,398	74 (F)	4,472	0 (T)	4,472
Sewer - Minimum Use	270	(90) (G)	180	(180) (U)	0
Tap Fees - Water	3,750	(3,750) (H)	0	0	0
Tap Fees - Sewer	3,550	(3,550) (I)	0	0	0
<u>Total Operating Revenues</u>	187,612	32,714	220,326	139,240	359,566
Operating & Maintenance Expenses	110,310	(7,210) (J)	103,100	0	103,100
General & Administrative Expenses	151,349	506 (K)	151,855	782 (V)	152,637
Depreciation & Amortization Expense (1)	27,934	(11,479) (L)	16,455	0	16,455
Taxes Other Than Income	3,042	(2,043) (M)	999	437 (W)	1,436
Income Taxes (2)	233	(233) (N)	0	20,305 (X)	20,305
<u>Total Operating Expenses</u>	292,868	(20,459)	272,409	21,524	293,933
<u>Net Operating Income(Loss)</u>	(105,256)	53,173	(52,083)	117,716	65,633
Customer Growth (3)	0	0	0	1,672 (Y)	1,672
<u>Total Income(Loss) For Return</u>	(105,256)	53,173	(52,083)	119,388	67,305
<u>Operating Margin</u>	-56.10%		-23.64%		18.72%
<u>Interest Expense for Operating Margin</u>	0		0		0

Notes:

- (1) Computation of Depreciation and Amortization Expense Adjustment is shown on Audit Exhibit DFS-3.
(2) Computation of Income Taxes is shown on Audit Exhibit DFS-4.
(3) Computation of Customer Growth is shown on Audit Exhibit DFS-5.

MELROSE UTILITY COMPANY, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
FOR THE TEST YEAR ENDED NOVEMBER 30, 2004

Revenue & Expenses	Adj #	Description	\$ MUC	\$ ORS
ACCOUNTING AND PRO FORMA ADJUSTMENTS				
(A) Availability Fees	1	ORS proposes to adjust revenues to reflect test year availability billings.	0	10,500
(B) Water/Sewer - Residence	2	ORS proposes to adjust revenues to reflect test year customer billings.	0	878
(C) Water/Sewer - Commercial	3	ORS proposes to adjust revenues to reflect test year customer billings.	0	29,795
(D) Water - Minimum Usage	4	ORS proposes to adjust revenues to reflect test year customer billings.	0	(90)
(E) Irrigation - Commercial	5	ORS proposes to adjust revenues to reflect test year customer billings.	0	(1,053)
(F) Irrigation - Residence	6	ORS proposes to adjust revenues to reflect test year customer billings.	0	74
(G) Sewer - Minimum Usage	7	ORS proposes to adjust revenues to reflect test year customer billings.	0	(90)
(H) Tap Fees - Water	8	ORS proposes to reclassify Tap Fees to Contributions in Aid of Construction (CIAC). MUC does not propose an adjustment.	0	(3,750)
(I) Tap Fees - Sewer	9	ORS proposes to reclassify Tap Fees to Contributions in Aid of Construction (CIAC). MUC does not propose an adjustment.	0	(3,550)
(J) O & M Expenses	10	ORS proposes to reduce Operations & Maintenance expense for Equipment Repair amounts that should have been capitalized.	0	(15,936)
	11	ORS proposes to increase Operations & Maintenance expense to properly reflect Utility - Electric expense applicable to the test year.	0	1,508
	12	ORS proposes to adjust Operations & Maintenance expense to reflect actual test year expenses.	0	7,218
			0	(7,210)
(K) G & A Expenses	13	ORS proposes to increase General & Administrative expense to properly reflect the amount of salary, payroll taxes and related benefits applicable to the test year and to reclassify Gross Receipts Assessment to Taxes Other Than Income.	0	8,464
	14	ORS proposes to reduce General & Administrative expense for DHEC fines paid during the test year that are nonallowable for rate making purposes.	0	(2,800)
	15	ORS proposes to reduce General & Administrative expense to reflect actual test year expenses.	0	(4,438)
	16	ORS proposes to reduce General & Administrative expense to reflect Bad Debt of 1.5% on As Adjusted Revenues, excluding Availability Fees.	0	(2,664)

MELROSE UTILITY COMPANY, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
FOR THE TEST YEAR ENDED NOVEMBER 30, 2004

Revenue & Expenses	Adj #	Description	\$ MUC	\$ ORS
(K) G & A Expenses (cont.)	17	ORS proposes to amortize rate case expenses of \$9,718 over 5 years. ORS adjusted for those expenses related to this rate case for which invoices were provided by MUC.	0	1,944
			<u>0</u>	<u>506</u>
(L) Dep. & Amort. Expenses	18	ORS proposes to annualize depreciation expense for plant in service using rates recommended by the ORS Water/Wastewater Department, and to reduce depreciation expense for amortization of cumulative tap fees.	0	(11,479)
(M) Taxes Other Than Income	19	ORS proposes to reclassify Gross Receipts tax from salary expense to Taxes Other Than Income.	0	1,487
	20	ORS proposes to reduce Taxes Other Than Income to reflect actual property tax expense of \$42.	0	(3,000)
	21	ORS proposes to adjust Gross Receipts Tax associated with the as adjusted revenue, excluding Availability Fees.	0	(530)
			<u>0</u>	<u>(2,043)</u>
(N) Income Taxes	22	ORS proposes to adjust income taxes to reflect the As Adjusted operations.	0	(233)
ADJUSTMENTS FOR EFFECT OF PROPOSED INCREASE				
(O) Availability Fees	23	ORS & MUC propose to show the increase for Availability Fees.	74,220	87,120
(P) Water/Sewer - Residence	24	ORS & MUC propose to adjust Water/Sewer - Residence revenue for the proposed increase.	13,685	15,155
(Q) Water/Sewer - Commercial	25	ORS & MUC propose to adjust Water/Sewer - Commercial revenue for the proposed increase.	9,523	37,325
(R) Water - Minimum Usage	26	ORS & MUC propose to eliminate Water - Minimum Usage revenue.	(270)	(180)
(S) Irrigation - Commercial	27	MUC proposes to adjust Irrigation - Commercial revenue for the proposed increase. ORS does not propose an adjustment to Irrigation - Commercial revenue since MUC did not file public notice of the increase to Irrigation - Commercial rates.	4,878	0
(T) Irrigation - Residence	28	MUC proposes to adjust Irrigation - Residence revenue for the proposed increase. ORS does not propose an adjustment to Irrigation - Residence revenue since MUC did not file public notice of the increase to Irrigation - Residence rates.	3,402	0
(U) Sewer - Minimum Usage	29	ORS & MUC propose to eliminate Sewer - Minimum Usage revenue.	(270)	(180)

MELROSE UTILITY COMPANY, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
FOR THE TEST YEAR ENDED NOVEMBER 30, 2004

Revenue & Expenses	Adj #	Description	\$ MUC	\$ ORS
(V) G & A Expenses	30	ORS proposes to adjust Bad Debt expense for 1.5% of the proposed increase.	<u>0</u>	<u>782</u>
(W) Taxes Other Than Income	31	ORS proposes to reflect the gross receipts taxes associated with the Proposed Increase Revenues, excluding Availability Fees.	<u>0</u>	<u>437</u>
(X) Income Taxes	32	ORS proposes to adjust income taxes associated with the Proposed Increase Revenue.	<u>0</u>	<u>20,305</u>
(Y) Customer Growth	33	ORS proposes to adjust customer growth for the proposed increase.	<u>0</u>	<u>1,672</u>

MELROSE UTILITY COMPANY, INC.
DEPRECIATION & AMORTIZATION EXPENSE ADJUSTMENT
FOR THE TEST YEAR ENDED NOVEMBER 30, 2004

Date Acquired	Description	Amount	Allocation of Equipment	Allocated Amount	Service Life	Depr. Rate	Depr. Expense	Accum. Depreciation
		\$	%	\$	years	%	\$	\$
01-Aug-99	Ford F150	8,405	40%	3,362	6	16.67%	560	3,360
30-Nov-04	Paint Melrose Well Storage Tank #2	2,000	100%	2,000	17	5.88%	118	118
30-Nov-04	Paint Melrose Well Storage Tank #1	2,000	100%	2,000	17	5.88%	118	118
30-Nov-04	Paint Bloody Point Well Storage Tank #2	2,000	100%	2,000	17	5.88%	118	118
01-Jan-88	Treatment & Collection Systems	17,912	100%	17,912	32	3.13%	561	9,537
15-Nov-04	Valves & Piping @ Master Lift Station	6,738	100%	6,738	18	5.56%	375	375
09-Nov-04	By Pass Piping & Blow Off - Well #2	15,850	100%	15,850	18	5.56%	881	881
24-Dec-04	Materials for Service - Cottages 415/416	3,850	100%	3,850	18	5.56%	214	214
15-Apr-94	Office Furniture	1,193	100%	1,193	15	6.67%	80	880
30-Apr-00	Treatment & Collection Systems	12,030	100%	12,030	32	3.13%	377	1,885
20-Jun-00	30003 GR Pump & Bracket	2,393	100%	2,393	18	5.56%	133	665
31-Jul-00	Monitoring Well	1,800	100%	1,800	20	5.00%	90	450
30-Nov-00	Master Line Replacement	33,500	100%	33,500	45	2.22%	744	3,720
01-Jan-88	Wastewater Treatment Facility	324,596	100%	324,596	32	3.13%	10,160	172,720
31-Dec-94	Water Line Replacement	7,455	100%	7,455	45	2.22%	166	1,826
25-Jun-02	Water Line Extension	18,742	100%	18,742	45	2.22%	416	1,248
15-Apr-99	Purchase Price	2,926	100%	2,926	8	12.50%	366	2,196
30-Apr-99	Meters Installed	632	100%	632	20	5.00%	32	192
07-Sep-94	Meters Installed	279	100%	279	20	5.00%	14	154
30-Nov-94	Lift Station Pump	6,703	100%	6,703	18	5.56%	373	4,103
31-Aug-95	Grinder Pump	7,071	100%	7,071	18	5.56%	393	3,930
31-Dec-95	Grinder Pumps	2,290	100%	2,290	18	5.56%	127	1,270
30-Jun-96	Equipment	752	100%	752	10	10.00%	75	675
31-Jul-96	Equipment	6,833	100%	6,833	10	10.00%	683	6,147
30-Sep-96	Equipment	7,933	100%	7,933	10	10.00%	793	7,137
31-Jan-97	Equipment	17,745	100%	17,745	10	10.00%	1,775	14,200
31-May-97	Equipment	1,592	100%	1,592	10	10.00%	159	1,272
30-Jun-97	Equipment	863	100%	863	10	10.00%	86	688
30-Nov-99	Northcutt Water System	14,027	100%	14,027	15	6.67%	936	5,616
29-Feb-00	Water Quality Monitor	4,816	100%	4,816	15	6.67%	321	1,605
14-Mar-00	Grinder Pumps	10,850	100%	10,850	18	5.56%	603	3,015
28-May-02	Aerators	3,600	100%	3,600	15	6.67%	240	720
30-May-02	Grinder Pump Rebuild	5,386	100%	5,386	18	5.56%	299	897
02-Jul-02	TS Industrial Repair	5,355	100%	5,355	15	6.67%	357	1,071
30-Nov-04	Machinery & Equipment	4,274	100%	4,274	18	5.56%	238	238
Totals		564,391		559,348			22,981	253,241
<u>Capitalized/Removed by Staff</u>								
31-Dec-03	Liftstation Screens	1,427	100%	1,427	25	4.00%	57	114
31-Dec-03	Liftstation Repairs - Melrose #14	12,344	100%	12,344	25	4.00%	494	988
31-May-04	Piranha S1812W, 230/1/60 Pump	2,165	100%	2,165	18	5.56%	120	120
30-Nov-04	Construct Roofs Over Fuel Oil Tanks	3,800	100%	3,800	25	4.00%	152	152
30-Nov-04	Construct Roofs Over Fuel Oil Tanks	1,000	100%	1,000	25	4.00%	40	40
01-Aug-03	WWTF Upgrades	23,400	100%	23,400	32	3.13%	732	1,464
01-Jan-88	Adj. to Wastewater Treatment Facility	(5,644)	100%	(5,644)	32	3.13%	(177)	(3,009)
15-Apr-99	Remove Undocumented Equipment	(2,926)	100%	(2,926)	8	12.50%	(366)	(2,196)
30-Jun-96	Remove Undocumented Equipment	(752)	100%	(752)	10	10.00%	(75)	(675)
31-Jul-96	Remove Undocumented Equipment	(6,833)	100%	(6,833)	10	10.00%	(683)	(6,147)
30-Sep-96	Remove Undocumented Equipment	(7,933)	100%	(7,933)	10	10.00%	(793)	(7,137)
31-Jan-97	Remove Undocumented Equipment	(17,745)	100%	(17,745)	10	10.00%	(1,775)	(14,200)
31-May-97	Remove Undocumented Equipment	(1,592)	100%	(1,592)	10	10.00%	(159)	(1,272)
30-Jun-97	Remove Undocumented Equipment	(863)	100%	(863)	10	10.00%	(86)	(688)
Total Plant In Service		564,239		559,196			20,462	220,795
<u>Amortization Expense Associated with Tap Fees (CIAC)</u>								
Cumulative Tap Fees					154,116			
Average Amortization for Water & Sewer Taps (38.5 years)					2.60%			
Less: Amortization Expense for Tap Fees					(4,007)			
Net Depreciation Expense					16,455			
Less: Per Book Depreciation Expense					(27,934)			
Depreciation and Amortization Expense Adjustment					(11,479)			

CIAC= Contributions in Aid of Construction

MELROSE UTILITY COMPANY, INC
COMPUTATION OF INCOME TAXES
FOR THE TEST YEAR ENDED NOVEMBER 30, 2004

	<u>As Adjusted Revenue</u>	<u>After Proposed Increase</u>
Operating Revenues	\$ 220,326	\$ 359,566
Less: Operating Expenses	272,409	273,628
Less: Interest Expense	<u>0</u>	<u>0</u>
Taxable Income	(52,083)	85,938
State Tax Rate	<u>5%</u>	<u>5%</u>
State Taxes	0	4,297
Federal Taxable Income	(52,083)	81,641
1st \$50,000 @ 15%	0	7,500
Next \$25,000 @ 25%	0	6,250
Next \$25,000 at 34%	0	2,258
Remaining Balance at 39%	<u>0</u>	<u>0</u>
Federal Income Taxes	0	16,008
Total State & Federal Income Taxes	<u>0</u>	<u>20,305</u>
Less: Per Book and As Adjusted Income Taxes	<u>233</u>	<u>0</u>
Net Income Tax Adjustment	<u>(233)</u>	<u>20,305</u>

**MELROSE UTILITY COMPANY, INC.
CUSTOMER GROWTH CALCULATION
FOR TEST YEAR ENDED NOVEMBER 30, 2004**

<u>Operations:</u>	<u>As Adjusted</u>	<u>After Proposed Increase</u>
Net Operating Income	\$ (52,083)	\$ 65,633
Growth Factor	0.025478	0.025478
Customer Growth	0	1,672

Number of Customers:

Beginning	152	<u>Formula:</u>			
Ending	161	Ending - Average	=	4	= 0.025478
Average	157	Average		157	

MELROSE UTILITY COMPANY, INC.
INCOME STATEMENT
FOR THE TEST YEAR ENDED NOVEMBER 30, 2004

Revenue

Availability Fees		
Water/Sewer - Residence	\$	95,580
Water/Sewer - Commercial		22,915
Water - Minimum Usage		46,709
Irrigation - Commercial		270
Irrigation - Residence		10,170
Sewer - Minimum Usage		4,398
Tap Fees - Water		270
Tap Fees - Sewer		3,750
		<u>3,550</u>

Total Operating Revenue

187,612

Expenses

Salaries	\$	122,075
Administration/Legal Fees		4,160
Departmental Supplies		12,905
Equipment Rental		5,907
Equipment Repair		22,746
Maintenance Contracts		15,369
Miscellaneous		4,295
Service Contracts		25,233
Telephone		865
Electric		21,846
Gas and Oil		1,198
Utility Water		811
Insurance		12,197
Licenses		7,674
Bad Debt		4,378
Property Tax		<u>3,042</u>

Total Operating Expenses

264,701

Income Tax
 Depreciation

233
27,934

Net Expenses292,868Net Loss\$ (105,256)

MELROSE UTILITY COMPANY, INC.
BALANCE SHEET
FOR TEST YEAR ENDED NOVEMBER 30, 2004

ASSETS

Assets

Customer Receivables	\$ 64,042
Allowance for Doubtful Accounts	1,747
Licenses	2,940
Intercompany Daufuskie Island Resort & Spa	(255,403)
Deposits	<u>3,347</u>
<u>Total Current Assets</u>	(183,327)

Fixed Assets

Building	17,912
Construction in Progress	28,962
Land Improvements	400,517
Machinery & Equipment	108,058
Furniture & Fixtures	1,193
Accumulated Depreciation - Furniture & Fixture	(304,109)
Deposits	(347)
Organizational Costs	41,267
Accumulated Depreciation - Organizational Costs	<u>(83)</u>
<u>Total Fixed Assets</u>	293,370
<u>Total Assets</u>	\$ <u><u>110,043</u></u>

MELROSE UTILITY COMPANY, INC.
BALANCE SHEET
FOR TEST YEAR ENDED NOVEMBER 30, 2004

LIABILITIES

Liabilities

Accrued Property Taxes	\$ 8,647
Accrued Sales Tax	(890)
Accrued Federal Tax Withholding	<u>1,000</u>
<u>Total Liabilities</u>	8,757

EQUITY

Equity

Paid In Capital	548,642
Paid Dividends	266,538
Common Stock	1,000
Retained Earnings - Current Year	(129,716)
Retained Earnings - Prior Periods	<u>(527,238)</u>
<u>Total Equity</u>	159,226
Year-to-date Net Income	<u>(57,940)</u>
<u>Total Equity</u>	101,286
<u>Total Liabilities & Equity</u>	\$ <u><u>110,043</u></u>

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF
DAWN HIPPI**



RECEIVED

JUL 29 2005

PSC SC
DOCKETING DEPT.

DOCKET NO. 2005-74-WS

**Application of Melrose Utility Company,
Inc. for Approval of an Adjustment in
Rates and Charges for Water and Sewer
Services**

TESTIMONY OF DAWN M. HIPPI**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2005-74-WS****IN RE: MELROSE UTILITY COMPANY, INC.**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Dawn M. Hipp. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Program Specialist in the Water/Wastewater Department for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I am a 1992 graduate of Moorhead State University where I earned a B.S. in Political Science. I have over eight years of experience in hazardous waste regulation. From 1996 to 1999, I worked for Laidlaw Environment Services in Saukville, Wisconsin, as an accounts receivable supervisor and then as a facility accounting supervisor for Laidlaw's Government Services Division. In this role, I facilitated electronic commerce including EDI transfer of order and EFT

1 payments with customers. I also developed, implemented, and enhanced
2 government billing and waste tracking systems. From 1999-2003, I worked for
3 Safety-Kleen Corporation and Clean Harbors Environmental Services, Inc. in
4 Columbia, SC as an operations manager in the Government Services Division. In
5 this role, I managed the financial, operations and all regulatory aspects of field
6 offices nationwide serving Department of Defense hazardous waste removal
7 contracts. I was accountable for the viability of 14 government contracts yielding
8 \$12 million in revenue annually.

9 In September 2004, I joined ORS as the Program Specialist for Water and
10 Wastewater Department. I am a member of the American Water Works
11 Association ("AWWA") and the South Carolina Section of the American Water
12 Works Association ("SC-AWWA").

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
14 **PROCEEDING?**

15 A. The purpose of my testimony is to set forth the ORS staff findings relative to
16 Melrose Utility Company, Inc.'s ("MUC") compliance with the Public Service
17 Commission ("PSC") rules and regulations, test-year and proposed revenue
18 calculations, financial assurance requirements, and site evaluations.

19 **Q. ARE THE FINDINGS OF YOUR REVIEW CONTAINED IN THIS**
20 **TESTIMONY AND ACCOMPANYING EXHIBITS?**

21 A. Yes, my testimony and the attached exhibits detail my findings and
22 recommendations.

1 **Q. PLEASE EXPLAIN HOW YOU COMPILED INFORMATION FOR YOUR**
2 **TESTIMONY AND EXHIBITS.**

3 A. I used ORS audit results and information provided by MUC in its Application,
4 Data Request responses and information gathered during the ORS facility site
5 inspection. I also reviewed MUC's financial statements and performance bond
6 documents submitted to the Public Service Commission. Further, I consulted
7 with and used information from South Carolina Department of Health and
8 Environmental Control ("DHEC"), the Environmental Protection Agency
9 ("EPA"), and the National Association of Regulatory Utility Commissioners
10 ("NARUC").

11 **Q. PLEASE PROVIDE AN OVERVIEW OF THE LOCATION, SERVICE**
12 **TYPES AND CUSTOMER BASE SERVICED BY MUC.**

13 A. MUC is a public utility providing potable and irrigation water supply service and
14 wastewater collection/treatment services. As a subsidiary of Daufuskie Island
15 Properties, LLC, MUC is a Class B water/wastewater utility. MUC's service area
16 is located on Daufuskie Island in Beaufort County, South Carolina. MUC's
17 business office is located in Hilton Head, South Carolina. The current water
18 supply is provided by four wells and is metered to all customers. MUC provides
19 wastewater treatment for Melrose and Bloody Point residential and commercial
20 customers through biological treatment and spray irrigation discharge at two
21 wastewater treatment facilities ("WWTF"). MUC and Haig Point Utility
22 Company, Inc. ("HPUC") operate one WWTF under a joint venture agreement
23 established in 1987; and MUC is allocated 40% of all expenses including labor.

1 According to MUC's customer records for the test year ending November 30,
2 2004, water and sewer services were provided to 57 residential and 71
3 commercial customers. Likewise, MUC provided separately metered irrigation
4 services to 33 commercial and residential customers.

5 **Q. PLEASE EXPLAIN EXHIBIT DMH-1 OF YOUR REPORT.**

6 A. Exhibit DMH-1, pages 1 through 3, provides a summary of the services provided
7 by MUC based on the Business Office Compliance Review completed by ORS.
8 The Business Office Compliance Review consists of a review of MUC's office
9 records to determine compliance with Commission rules and regulations.

10 MUC utilizes a customized computer database to capture customer account billing
11 transactions. Customer billing complaints are maintained by the Hilton Head
12 office in an Adjustment Report which details the customer name, account number,
13 billing date, type of billing adjustment and account resolution. Service
14 complaints, according to MUC, are phoned into the Daufuskie Island Properties
15 main switchboard and routed to a MUC employee, on Daufuskie Island, for
16 resolution. No auditable records are maintained by MUC on service complaints.
17 MUC does not charge late fees or customer deposits. In addition, MUC does not
18 disconnect customers for non-payment. ORS's audit of MUC billing transactions
19 noted few delinquent accounts in the customer data base. Invoice adjustments
20 and payment applications are automated and timely.

21 MUC staff was provided the Business Compliance Review and facility site
22 inspection results for review and comment. Both parties had opportunity to
23 provide feedback and suggestions to assist MUC in their efforts toward

1 compliance with all PSC Rules and Regulations. MUC has agreed to implement
2 many of the improvements recommended by ORS. However, the Business Office
3 Compliance Review revealed the following deficiencies:

4 1. No service complaint records are available as required pursuant to 26 S.C.
5 Code Regs. 103-516 and 103-716. MUC did not maintain detailed
6 information to afford analysis of the utility's procedures, actions and
7 resolutions to specific customer service complaints as required by 26 S.C.
8 Code Regs. 103-516, 103-538, 103-716 and 103-738. Complaints related to
9 customer billing are maintained in MUC's computer database but lack
10 required information to comply with Commission regulations.

11 2. MUC does not maintain the following information as required by Commission
12 regulations:

- 13 i. Rates, rules/regulations, maps and plans available for public inspection
14 within the service territory;
- 15 ii. Procedures assuring that complainants are made aware that MUC is
16 under Commission jurisdiction;
- 17 iii. Proper customer billing format including service dates, due date, after-
18 hours telephone number, and rate schedule; and
- 19 iv. Accurate customer bills for water/sewer usage.

20 3. MUC does not file notices of DHEC rule violations with PSC; and

21 4. The bond amount is insufficient.

22 **Q. PLEASE EXPLAIN EXHIBIT DMH-2 OF YOUR REPORT.**

1 A. Exhibit DMH-2, consisting of six pages, is a summary of the water supply and
2 wastewater collection and treatment services inspected by ORS on June 6, 2005.

3 **Water Supply**

4 MUC currently provides adequate water supply and distribution services to its
5 residential and commercial customers. Bloody Point Well #1 and Well #2
6 provide water to the Bloody Point subdivision are in good condition and operating
7 adequately. Melrose Well #1 and Well #2 provide water to the Melrose
8 subdivision are in good condition and operating adequately. ORS noted during
9 the site visit that both well houses in the Melrose subdivision require roofing
10 repairs. A small leak was observed by the booster pump on Melrose Well #1. The
11 water at all four well locations, as observed by ORS, was free of air, distinct color
12 and had no observable odor. Potable water and irrigation consumption is metered
13 to all customers. MUC provides fire protection services to residential and
14 commercial customers. Under a SC DHEC consent order signed by Daufuskie
15 Island Properties in February 2005, MUC is required to increase its water storage
16 capacity to provide sufficient fire flow. In addition, during the ORS site
17 inspection, personnel working for MUC noted their continued work to isolate
18 leaks in the water system. ORS requested a full report from MUC detailing all
19 unaccounted for water statistics; however, this report has not been received to
20 date. There is no construction activity being proposed by MUC for its water
21 supply and distribution systems.

22 **Wastewater Collection and Treatment Systems**

1 MUC provides wastewater treatment at two locations on Daufuskie Island under
2 SC DHEC no discharge permits. MUC and HPUC jointly operate the
3 Melrose/Haig Point Wastewater Treatment Facility under terms of a joint
4 agreement signed by both companies in 1987. Under this agreement, HPUC
5 agrees to provide all labor and supplies to properly operate and maintain the
6 WWTF. In exchange, HPUC bills MUC 40% of all operating expenses on a
7 monthly basis. Treated wastewater is discharged to Haig Point and Melrose Golf
8 Courses and driving ranges based on watering demand and available effluent.
9 The Melrose wastewater collection system includes 28 lift stations.
10 MUC owns and operates the Bloody Point WWTF and treated wastewater is
11 discharged to the Bloody Point Golf Course and driving range based on watering
12 demand. The Bloody Point collection system includes three lift stations.
13 During the ORS inspection, all the wastewater collection and treatment systems
14 were operating adequately and in accordance with DHEC rules and regulations.
15 There is neither construction activity being proposed by MUC for its wastewater
16 collection and treatment systems nor is there an immediate need for an upgrade of
17 the existing systems.

18 **Q. PLEASE EXPLAIN EXHIBIT DMH-3 OF YOUR REPORT.**

19 A. Exhibit DMH-3 provides an overview of MUC's bonding structure. The purpose
20 of a utility's performance bond is to provide sufficient financial assurance to both
21 the customer and the Commission in the event that the utility fails to provide safe
22 and adequate service. The performance bond amount should be of a level to
23 support expenses of that utility for a period of time. Pursuant to 26 S.C. Code

1 Regs. 103-512.3.1 and 103-712.3.1, “the amount of bond shall be based on, but
2 not limited to, the total amount of the following categories of expenses for twelve
3 months: Operation and Maintenance Expenses, General and Administrative
4 Expenses, Taxes Other Than Income Taxes, Income Taxes, and Debt Service
5 including Interest Expenses.” The bond amount is also set forth in S.C. Code Ann.
6 Section 58-5-720 (Supp. 2004). The Commission’s statutes and regulations state
7 bond amounts must range from an amount not less than \$100,000 and not more
8 than \$350,000.

9 MUC has current performance bonds for utility water and wastewater operations
10 in the form of insurance sureties underwritten by Hartford Fire Insurance
11 Company on file with the PSC in the amount of \$20,000 for water and \$20,000
12 for sewer. Both sureties have an expiration date of October 8, 2005 (Exhibit
13 DMH-4).

14 Upon reviewing the expenses from the test year and using the criteria set forth in
15 26 S.C. Code Regs. 103-512.3.1 and 103-712.3.1, I determined that the face
16 amount of MUC’s bond should be \$140,000.00 for water operations and
17 \$140,000.00 for wastewater operations. Combined operations bonding criteria
18 expenses totaled \$277,478.00 as adjusted. In order to protect the ratepayers, in
19 the event the utility becomes non-viable, ORS recommends to increase the bond
20 requirement for MUC to \$140,000 for both water and wastewater operations
21 according to the requirements of S.C. Code Ann. Section 58-5-720.

1

2 **Q. PLEASE EXPLAIN EXHIBIT DMH-5 OF YOUR REPORT.**3 A. Exhibit DMH-5 is the depreciation schedule for the assets obtained or owned by
4 MUC during the test year.5 **Q. WHAT SERVICE LIFE DO YOU ATTRIBUTE TO THESE ASSETS?**6 A. The service life should be based on the useful life of a piece of equipment and
7 may differ from the service life assigned for computation of depreciation expense
8 for income tax preparation. MUC's has established service life estimates for this
9 rate filing from their 2004 Federal Income Tax depreciation schedule. However,
10 ORS recommendations are based on the conclusions outlined in the Florida Public
11 Service Commission Water and Wastewater System Regulatory Law as
12 recommended by the NARUC staff. ORS' approach and conclusions made
13 concerning depreciation are consistent with the Public Utility Depreciation
14 Practices manual as published by NARUC in 1996 which states...15 "Book depreciation is a cost allocation process used to satisfy specific
16 accounting and regulatory principles and requirements, whereas tax
17 depreciation provides additional tax and financial incentives unrelated to
18 the strict cost allocation process."19 ORS has removed several assets listed on the depreciation schedule provided by
20 MUC in their Application because they could not be identified during the site
21 audit or by MUC staff. In addition, ORS added several assets to the depreciation
22 schedule that were discovered during the ORS audit and previously listed on the
23 MUC books and records as expenses. ORS recommends that MUC develop and

1 maintain continuing property records to assist accurate recording of depreciation
2 expense and plant/equipment assets.

3 **Q. PLEASE DESCRIBE MUC'S BILLING PROCEDURE AND THE ORS**
4 **AUDIT OF CUSTOMER BILLING RECORDS.**

5 A. ORS completed a thorough review of MUC's customer water consumption
6 records and customer billing records on June 17, 2005. Currently, MUC's
7 approved tariff is structured for monthly customer billing; however, MUC reads
8 water meters and bills water, wastewater and irrigation customers on a quarterly
9 basis in arrears. During the audit of customer billings, ORS noted that customer
10 bills for water consumption were not calculated accurately. ORS noted billing
11 variances on several different customer accounts and all variances were under
12 \$5.00. MUC bills customers a usage charge for sewer service which is based on
13 water usage during a given billing period. ORS noted during its audit of MUC's
14 consumption records that residential and commercial water and sewer
15 consumption levels (bill codes W1/S1 and W2/S2) are not in balance. Since no
16 MUC customers have wells or septic tanks, water and sewer consumption levels
17 should remain equal. As a result, ORS requested MUC review their database
18 structure and identify the cause of these billing and water/sewer consumption
19 variances. Once MUC isolates the cause, ORS will assist MUC in making proper
20 customer account adjustments for any over or under charges occurring as a result
21 of the calculation errors. In addition, MUC charges irrigation customers a
22 minimum use fee of \$5.00 when no irrigation water is used during a billing
23 period. This minimum use fee of \$5.00 is not approved by the PSC. ORS

1 requested MUC identify the customers being charged this fee and make the proper
2 account adjustments to credit this overcharge on the September 2005 billing
3 statements. On July 25, 2005 MUC provided a detailed listing of customer
4 accounts affected by the \$5.00 minimum fee and has agreed to credit the accounts
5 as requested.

6 ORS has normalized the test year revenue to reflect accurate consumption and
7 customer charges for water and sewer services.

8 **Q. PLEASE DESCRIBE THE ORS REVENUE ANALYSIS PROVIDED IN**
9 **EXHIBIT DMH-6.**

10 A. Exhibit DMH-6 summarizes MUC's service revenues for the test year
11 ending November 30, 2004. I used a bill frequency analysis to provide a
12 comparison of MUC's base monthly charge for water and sewer service. The bill
13 frequency analysis utilizes the total number of invoices issued during the test year
14 multiplied by the average billing amount per monthly customer invoice. This
15 provides a comparison between what should have been billed and what was
16 actually recorded as revenue. In addition, I reviewed MUC's records relating to
17 all customer water usage for the test year to determine the actual amount of water
18 billed to customers by MUC. Using the actual water consumption, I applied
19 MUC's approved rates to verify test year revenue. ORS notes that MUC prepared
20 the proforma income and expense statement (Application Exhibit C) based only
21 on service revenue generated by base monthly rates during the test year. MUC's
22 Income and Expense statement is incorrect because it does not include revenue
23 generated by customer water/sewer consumption charges. Exhibit DMH-6 is

1 prepared using all service revenue including base monthly charges and
2 water/sewer consumption charges earned during the test year beginning 12/01/03
3 and ending 11/30/04. ORS used consumption data provided by MUC and verified
4 during the audit. In addition, ORS used MUC's current and proposed rates as
5 reflected in the Application for all calculations.

6 In its application, MUC requests that availability fee charges be treated as
7 operating revenue. During the ORS audit, it was apparent that MUC billed,
8 collected and used availability fees as service revenue.

9 In summary, ORS calculated MUC's test year service revenue, as adjusted, of
10 \$220,325. ORS calculated MUC's service revenues at proposed rates, as
11 adjusted, of \$359,565.

12 **Q. PLEASE EXPLAIN EXHIBIT DMH-7 OF YOUR REPORT.**

13 A. Exhibit DMH-7 is a summary of the current PSC approved rates for MUC and
14 MUC's proposed rates.

15 **Q. DID MUC REQUEST AN INCREASE TO RATES AND CHARGES FOR**
16 **RESIDENTIAL AND IRRIGATION CUSTOMERS?**

17 A. No. MUC did not include an increase to rates and charges relating to residential
18 and commercial irrigation customers. However, MUC did provide a proforma
19 analysis its Application (Exhibit C) indicating that irrigation rates would increase.
20 Since the proposed increase to residential and commercial irrigation rates was
21 omitted from MUC's originally filed Application and Notice of Filing, current
22 rates of \$1.20 per 1,000 gallons for irrigation customers should remain in effect.

1 **Q. DOES ORS AGREE WITH MUC'S REQUEST TO INCREASE WATER**
2 **AND SEWER TAP FEES?**

3 A. No. ORS has reviewed Exhibit G provided by MUC in its application and
4 information provided in response to the ORS data request. MUC has requested to
5 increase all of customer Tap Fees except those for Hotel/Inn Room and Cottages
6 owned by Daufuskie Island Properties, LLC. While an increase in tap fees may
7 be appropriate, the cost justification provided by MUC in Exhibit G and the data
8 request response could not be verified by ORS. MUC installed four taps during
9 the test year but did not provide any cost information as requested by ORS. ORS
10 finds the requested tap fee increases are unnecessary at this time as the cost
11 justification provided cannot be verified.

12 **Q. PLEASE EXPLAIN EXHIBIT DMH-8 OF YOUR REPORT.**

13 A. Exhibit DMH-8 provides a summary of the revenue increase amounts produced
14 by a selected range of operating margins. Information provided in MUC's
15 application indicates a proposed operating margin of 0.58%. ORS recommends
16 an operating margin range of 10-15% which will provide a prudent balance
17 between the consumer's need for affordable, quality services and MUC's
18 financial health. The Audit Department calculated the revenue requirement for the
19 alternate operating margins. The Water/Wastewater Department calculated the
20 proposed increase amounts that would produce the revenue requirement.

21 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

22 A. Yes it does.

DIRECT EXHIBITS

OF

DAWN HIPPI

DOCKET NO. 2005-74-WS

**Application of Melrose Utility
Company, Inc. for Approval of an
Adjustment in Rates and Charges for
Water and Sewer Services**

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2005-74-WS

MELROSE UTILITY COMPANY, INC.

DAWN M. HIPPIE TESTIMONY

EXHIBIT INDEX

<u>EXHIBIT NO.</u>	<u>EXHIBIT TYPE</u>	<u>PREPARED BY</u>
DMH-1	Business Office Compliance Review	ORS
DMH-2	Water and Wastewater System Inspection Reports	ORS
DMH-3	Performance Bond Requirement	ORS
DMH-4	MUC Insurance Sureties	MUC
DMH-5	Depreciation Schedule	ORS
DMH-6	Service Revenue Analysis	ORS
DMH-7	Proposed Rate Structure Comparison	ORS
DMH-8	Alternate Operating Margin Comparison	ORS

REVIEW OF WATER AND WASTEWATER SERVICES
MELROSE UTILITY COMPANY, INC.
DOCKET: 2005-74-WS

On June 17, 2005, personnel from the Office of Regulatory Staff (“ORS”) of South Carolina performed a Business Compliance audit of the revenue, customer complaint, and customer deposit records of Melrose Utility Company, Inc. (“MUC”) in preparation for this rate case. MUC currently provides water supply services, wastewater collection and treatment services to commercial and residential customers in Melrose and Bloody Point communities on Daufuskie Island in Beaufort County, South Carolina. As of May 1, 2005, MUC provides water and sewer services to 117 commercial and residential customers and metered irrigation services to 32 commercial and residential customers.

The ORS Consumer Services Department received no consumer complaints regarding MUC during the test year. Since the Notice of Filing was mailed to MUC’s customers, the Public Service Commission has received one Petition to Intervene and no Letters of Protest.

ORS determined MUC provides adequate water provision and wastewater collection and treatment services and is operating its facilities in compliance with all DHEC rules, regulations and consent orders.

The following 2 pages provide a summary of the ORS Business Compliance Audit results.



ORS BUSINESS OFFICE COMPLIANCE REVIEW: DOCKET 2005-74-WS

Utility: Melrose Utility Company, Inc. ("MUC")

Inspector: Dawn Hipp

Office: 421 Squire Pope Road, Hilton Head Island, SC 29926

Utility Type: Water and Wastewater Utility

Date: 06/17/05

Company Representative: Liz Oliver and Tarey Merchant

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
1	All records and reports available for examination in accordance with R.103-510 and R. 103-710.	X		All PSC records and reports housed at 421 Squire Pope Road, Hilton Head office. Records were provided upon request.
2	Complaint records maintained in accordance with R.103-516 and R. 103-716.		X	Adjustment log used by MUC sufficiently documents complaints regarding customer billing and adjustments made to customer accounts. However, complaint records are not maintained on service complaints. Service complaints are relayed to MUC by Daufuskie Island Properties, LLC.
3	Utility's rates, its rules and regulations, and its up-to-date maps and plans available for public inspection in accordance with R.103-530 and R.103-730.		X	Rate and rules/regulations not available for customer review at MUC office on Daufuskie Island. All records, rates, rules and regulation available at 421 Squire Pope Road, Hilton Head Island.
4	Established procedures to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the South Carolina Public Service Commission and that the customer has the right to register the complaint in accordance with R.103-530 and R. 103-730.		X	No established procedure identified by MUC. Per discussions with MUC, a statement will be added to quarterly billings beginning in September 2005.
5	Deposits charged within the limits established by R.103-531 and R. 103-731.	NA	NA	MUC does not charge deposits.
6	Timely and accurate bills being rendered to customers in accordance with R.103-532 and R.103-732.		X	MUC bills quarterly in arrears for water, sewer and irrigation services. Bills are issued on day 90 of the quarter. Availability fees are quarterly also. Water usage components of quarterly bills are not computed correctly. ORS has advised MUC to investigate and address the problem. Irrigation customer accounts that have no water usage during the quarter are charged a minimum use charge of \$5.00. ORS has advised MUC to discontinue this practice as this charge is not approved by the PSC and adjust appropriate accounts to reflect a refund of the minimum use charge. MUC has agreed to refund the overcharges.
7	Bill forms in accordance with R.103-532 and R.103-732.		X	Bill forms lack due date, phone number for contacting MUC during non-business hours, service dates that billed is rendered, rate schedule or applicable rate reference. Per discussions with MUC, bill forms will be adjusted to include all necessary information in September 2005.

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
8	Adjustments of bills handled in accordance with R.103-533 and 103-733.	X		MUC does not charge late fees
9	Policy for customer denial or discontinuance of service in accordance with R.103-535 and 103-735.	NA	NA	MUC does not discontinue service and does not intend to discontinue service to customers.
10	Notices sent to customers prior to termination in accordance with R.103-535 and 103-735.	NA	NA	MUC does not terminate service.
11	Notices filed with the Commission of any violation of PSC or DHEC rules which affect service provided to its customers in accordance with rule R.103-514-C and 103-714-C.		X	NOV's are not being filed with PSC or ORS. DHEC Consent Order provided with MUC data request responses.
12	Utility has adequate means (telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in case of emergency or unscheduled interruptions or service in accordance with R.103-530 and 103-730.		X	MUC does not list an emergency phone number on quarterly bills. Customers contact Daufuskie Island Properties, LLC for immediate reporting of service issues. Daufuskie Island Properties contacts MUC for resolution. Per discussions with MUC, bill forms will be adjusted to include this information in September 2005
13	Records maintained of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with R.103-514 and 103-714.	NA	NA	No unscheduled interruption of service has occurred on systems.
14	Utility advised the Commission of the name, title, address and telephone number of the person who should be contacted in connection with general management duties, customer relations, engineering operations, emergencies during non-office hours, in accordance with Rule 103-512 and 103-712.	X		Received by ORS 05/31/05.
15	Company verified the maps on file with the Commission include all the service area of the company.	X		
16	Number of customers the company has at present time.	NA	NA	117 water/sewer customers (50 residential and 67 commercial); 32 irrigation customers
17	Company has a current performance bond on file with the Commission. Amount of bond: \$20,000.00 water; \$20,000 sewer		X	MUC currently has an insurance certificate on file with the PSC dated October 2004. The stated bond amount of \$20,000 for water and \$20,000 for sewer is insufficient per R.103-512 and 103-712. MUC has agreed to increase the performance bond amount.



ORS WATER SYSTEM INSPECTION: DOCKET 2005-74-WS

Utility Name: **Melrose Utility Company, Inc.** Number of Customers: **167 Res/Commercial**

System Type: **4 operating wells**

Date Inspected: **06/06/05**

Inspected By: **D. Hipp/W. Morgan**

Subdivision Name: **Melrose and Bloody Point**

Company Representative: **Eric Johanson/Bill Donaldson**

Type of Plant: **4 operating wells; 3 - 5,000 gallon hydro pneumatic above ground storage tanks
1 - 10,000 gallon hydro pneumatic above ground storage tanks**

Extent of Treatment: **Operating wells chlorinated by chlorine gas (DW Permits 0750038 and 0750043)**

System Components Inspected	Specific Type	Total #	PSI	Capacity	Compliance		Comments
					Yes	No	
Well Sites	Bored	4	45-60	500-1,000 gpm	X		BP Wells #1 & #2 were constructed in 1990; BP Well depth: #1=260 ft; #2=270 ft; MR Well #1 and #2 were constructed in 1987. MR Well depth: #1 = 240 ft #2=200 ft.
Pump Houses	Steel/Wood/Masonite	4			X		MR Pump houses in need of roof repair.
Storage Tank(s)							
	Pressurized	4		3 - 5,000 1-10,000	X		Tanks recently painted and in good condition.
	Non-Pressurized						
	Overhead						
Chlorinator	Gas cylinders	4			X		Cylinders chained and monitoring system working.
Meters					X		
Fire Hydrants					X		
Electrical Wiring					X		
Exposed Pipe					X		No exposed piping on system
Air in Lines					X		Water observed at all 4 well sites. No air in lines observed.
Sand in Water					X		None observed
Clarity of Water	Clear				X		No observable color
Leaks		1				X	Booster pump on MR Well #1 leaking.
Odor	None				X		No observable odor
Condition of Access Road:	Good				X		
New Construction	Yes - occupancy rate is low						

ORS WATER SYSTEM INSPECTION: DOCKET 2005-74-WS

Frequency Checked by Licensed Operator: Daily

Location of Utility Office: Haig Point Utility, Inc. WWTF (MUC and Haig Point share labor resources for water system operations)

Subdivision provided wastewater service by this Utility: Yes

Comments:

- 1) Back up power source for wells is readily available at each well house using gas generators.
- 2) Quality of drinking water evaluated by observation. ORS has not received any customer complaints related to drinking water quality.
- 4) As provided in the Application, MUC's latest SC DHEC Public Water Sanitary Survey Report completed in November 2004 provided the drinking water system an Overall Rating of Unsatisfactory. As a result, SC DHEC and MUC entered into a Consent Order in February 2005 regarding water storage capacity and fire flow.
- 5) All well houses lack signage stating company name and emergency phone number.



ORS WASTEWATER SYSTEM INSPECTION: DOCKET 2005-74-WS

Utility Name: **Melrose Utility Company, Inc.** Number of Customers: **88 Res/Com**

System Type: **Collection and Treatment System** Date Inspected: **06/06/05**

Inspected By: **D.Hipp/W. Morgan** Subdivision Name: **Melrose Community**

Company Representative: **Eric Johanson and Bill Donaldson**

Type of Plant: **Collection and Biological Treatment System with Spray irrigation**

Extent of Treatment: **Biological Treatment with Spray irrigation Discharge to Haig Point and Melrose Golf Club using a no discharge permit # ND0062286**

System Components Inspected	Yes	No
Chlorinator Gas cylinders	X	
Other Chemicals in Use		X
Aerators ¹	X	
Plant fenced and Locked	X	
Warning Signs Visible ²	X	
Holes in Fence		X
Erosion of Dikes	X	
Odor		X
Grass Cut	X	
Duck Weed or Algae ³	X	
Grease Build Up ⁴	X	
Debris inside of Plant ⁵	X	
Color of Effluent: Clear		
Lift Stations: Number 28	X	
Failure Warning System	X	
Electric Wiring Acceptable	X	
Overflows		X
Condition of Access Road: Good	NA	NA
New Construction	X	

Frequency Checked by Licensed WWTF Operator: **Daily**

Location of Utility Office: **Utility office is at WWTF**

Location of System: **Collection and Treatment System located on Daufuskie Island, Beaufort County**

Subdivision provided water by this Utility: **Yes**

ORS WASTEWATER SYSTEM INSPECTION: DOCKET 2005-74-WS

Comments: Collection and treatment system discharges treated wastewater to Haig Point Golf Club and Melrose Golf Club based on watering demand.

All lift stations on MUC system were operating properly with good flow.

WWTF is not under any DHEC enforcement action. SC DHEC Wastewater Treatment Plant Facility Evaluation Inspection Report dated 01/27/04 lists the overall rating of the WWTF as satisfactory. SC DHEC NPDES Compliance Inspection Report dated 06/04/04 indicates the WWTF is operating in a satisfactory manner under permit ND0062286.

Footnotes:

1. WWTF has 10 aerators operating at timed intervals. On day of inspection, MUC staff was conducting sampling in lagoon system and 1 aerator was operating in the system.
2. Warning signs were visible on the plant fence but lacked company name and emergency phone number.
3. Heavy duck weed covering ½ of the lagoon system was observed during the inspection. Duck weed accumulated in the chlorine contact chamber. MUC staff skims the lagoon at regular intervals to remove the duck weed build up.
4. Grease build up was observed in the influent/bar screen area. Influent flows through bar screen and grinder pump prior to flowing into equalization area of lagoon.
5. Some debris has accumulated inside fenced area. MUC is encouraged to contain debris from bar screen in a marked trash receptacle.



ORS WASTEWATER SYSTEM INSPECTION: DOCKET 2005-74-WS

Utility Name: **Melrose Utility Company, Inc.** Number of Customers: **~29 Res/Com**

System Type: **Collection and Treatment System** Date Inspected: **06/06/05**

Inspected By: **D.Hipp/W. Morgan** Subdivision Name: **Bloody Point**

Company Representative: **Eric Johanson and Bill Donaldson**

Type of Plant: **Collection and Biological Treatment System with Spray irrigation**

Extent of Treatment: **Biological Treatment with Spray Irrigation Discharge to Blood Point Golf Club using a no discharge permit # ND0068179**

System Components Inspected	Yes	No
Chlorinator Gas cylinders	X	
Other Chemicals in Use		X
Aerators ¹	X	
Plant fenced and Locked	X	
Warning Signs Visible ²	X	
Holes in Fence	X	
Erosion of Dikes	X	
Odor		X
Grass Cut		X
Duck Weed or Algae ³	X	
Grease Build Up ⁴	X	
Debris inside of Plant ⁵	X	
Color of Effluent: Clear		
Lift Stations: Number 3	X	
Failure Warning System	X	
Electric Wiring Acceptable	X	
Overflows		X
Condition of Access Road: Good	NA	NA
New Construction	X	

Frequency Checked by Licensed WWTF Operator: **Daily**

Location of Utility Office: **On-island utility office is at WWTF**

Location of System: **Collection and Treatment System located on Daufuskie Island, Beaufort County**

Subdivision provided water by this Utility: **Yes**

ORS WASTEWATER SYSTEM INSPECTION: DOCKET 2005-74-WS

Comments: Collection and treatment system discharges treated wastewater to Bloody Point Golf Club based on watering demand.

Two of the three lift stations on MUC system were operating properly with good flow. Lift station at Sandy Lane condominiums was operating in by-pass due to repair and replacement of the grinder pump.

WWTF is not under any DHEC enforcement action. No SC DHEC Wastewater Treatment Plant Facility Evaluation Inspection Report was provided as part of the data request response.

Footnotes:

1. WWTF has 6 aerators operating at timed intervals. On day of inspection, only 1 aerator was operating in the system.
2. Warning signs were visible on the plant fence but lacked company name and emergency phone number.
3. Heavy duck weed covering 2/3 of the lagoon system was observed during the inspection.
4. Grease build up was observed in the influent/bar screen area.
5. Some debris has accumulated inside fenced area. MUC is encouraged to contain debris from bar screen in a marked trash receptacle.

MELROSE UTILITY COMPANY, INC.
2005-74-WS
PERFORMANCE BOND FOR TEST YEAR ENDING NOVEMBER 30, 2004

EXHIBIT DMH-3

	Melrose Utility Company, Inc. - Combined Operations		
	Per Books	As Adjusted	MUC Proposed Increase
Bond Value Components			
O & M Expense	\$110,310.00	\$103,100.00	\$103,100.00
G & A Expense	\$151,349.00	\$151,855.00	\$152,637.00
Taxes	\$3,042.00	\$999.00	\$1,436.00
Income Tax	\$233.00	\$0.00	\$20,305.00
Debt Service/Interest Expense	\$0.00	\$0.00	\$0.00
Bond Value Requirement	\$264,934.00	\$255,954.00	\$277,478.00
Current Performance Bond Structure (1)	Bond Value	Expiration Date	
Hartford Fire Insurance Company (Water Surety) 57BSBCN2654	\$20,000.00	10/08/05	
Hartford Fire Insurance Company (Wastewater Surety) 57BSBCN2641	\$20,000.00	10/08/05	
Total Financial Assurance	\$40,000.00		

(1) As reported in Surety Bond dated 10/08/04 filed with PSC.



Verification Certificate

This is to certify that Bond No. 57BSECN2654
subscribing this certificate, dated October 8, 2004
in the amount of Twenty Thousand

issued by the member company of The Hartford

Dollars \$20,000.00

on behalf of Melrose Utility Company, as Principal,
and in favor of State of South Carolina Public Service Commission, as Obligees,
covers an indefinite term which began on October 8, 2004, and ends with the cancellation of
said bond; that said bond is now in full force and effect and will continue in full force and effect until cancelled.

ANNIVERSARY PREMIUM PERIOD: October 8, 2004 - October 8, 2005

Signed, Sealed, and Dated July 12, 2004

Attest or Witness

V. McBurnick

Hartford Fire Insurance Company
Surety

By: *Ann Gile* (Seal)

Ann Gile, Attorney in fact

CC:

CC:



Verification Certificate

This is to certify that Bond No. 57BSBCN2641
subscribing this certificate, dated October 8, 2004
in the amount of Twenty Thousand

issued by the member company of The Hartford

Dollars \$20,000.00

on behalf of Melrose Utility Company, as Principal,
and in favor of State of South Carolina Public Service Commission, as Obligees,
covers an indefinite term which began on October 8, 2004, and ends with the cancellation of
said bond; that said bond is now in full force and effect and will continue in full force and effect until cancelled.

ANNIVERSARY PREMIUM PERIOD: October 8, 2004 - October 8, 2005

Signed, Sealed, and Dated July 12, 2004

Attest or Witness

V. McBumick

Hartford Fire Insurance Company
Surety

By: Ann Gile (Seal)

Ann Gile, Attorney in fact

CC:

CC:



<i>Obligee Name</i> State of South Carolina Public Service Commission
<i>Obligee Mailing Address</i> 101 Executive Center Drive, Suite 100 Columbia, SC 29210
<i>Policy Number</i> 57BSBCN2641

IMPORTANT NOTICE TO OBLIGEES/POLICYHOLDERS – TERRORISM RISK INSURANCE ACT OF 2002

You are hereby notified that, under the Terrorism Risk Insurance Act of 2002, effective November 26, 2002, we must make terrorism coverage available in your bond/policy. However, the actual coverage provided by your bond/policy for acts of terrorism, as is true for all coverages, is limited by the terms, conditions, exclusions, limits, other provisions of your bond/policy, any endorsements to the bond/policy and generally applicable rules of law.

Any terrorism coverage provided by this bond/policy is partially reinsured by the United States of America under a formula established by Federal Law. Under this formula, the United States will pay 90% of covered terrorism losses exceeding a statutorily -established deductible paid by sureties/insurers until such time as insured losses under the program reach \$100 billion. If that occurs, Congress will determine the procedures for, and the source of, any payments for losses in excess of \$100 billion.

The premium charge that has been established for terrorism coverage under this bond/policy is either shown on this form or elsewhere in the bond/policy. If there is no premium shown for terrorism on this form or elsewhere in the bond/policy, there is no premium for the coverage.

Terrorism premium:	\$0
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MELROSE UTILITY COMPANY, INC.
2005-74-WS
DEPRECIATION SERVICE LIFE SCHEDULE
FOR TEST YEAR ENDING NOVEMBER 30, 2004

MUC Assets approved for depreciation expense by ORS						
ORS		Service				
Service Area	ORS Date Acquired	Asset Description	Purchase Price	Life	Account #	Asset Location
Water	07/31/00	Monitoring Well	\$1,800	20	307	Melrose and Bloody Point
Water	11/30/00	Master Line replacement	\$33,500	45	331	Melrose and Bloody Point
Water	12/31/94	Water line replacement	\$7,455	45	331	Melrose and Bloody Point
Water	06/25/02	Water Line Extension	\$18,742	45	331	Melrose and Bloody Point
Water	02/29/00	Water quality monitor	\$4,816	15	344	Melrose and Bloody Point
Water	11/30/99	Northcutt Water System	\$14,027	15	347	Melrose and Bloody Point
Water	04/30/99	Meters	\$632	20	334	Melrose and Bloody Point
Water	09/07/94	Meters	\$279	20	334	Melrose and Bloody Point
Water	11/30/04	Construct roofs over fuel tanks	\$3,800	25	304	Melrose and Bloody Point
Water	11/30/04	Construct roofs over wells	\$1,000	25	304	Melrose and Bloody Point
Water	11/30/04	Repainting of storage tanks (3)	\$6,000	17	339	Melrose and Bloody Point
Water	11/09/04	Install blow-off valve on well #2	\$15,850	18	339	Melrose
Water	12/24/04	Separate utility pipes and install valves	\$3,850	18	339	Melrose
Wastewater	04/30/00	Treatment and collection systems	\$12,030	32	354	Bloody Point
Wastewater	06/20/00	30003 GR Pump and bracket	\$2,393	18	371	Bloody Point
Wastewater	11/30/94	Lift Station Pump	\$6,703	18	371	Melrose and Bloody Point
Wastewater	08/31/95	Grinder Pump	\$7,071	18	371	Melrose and Bloody Point
Wastewater	12/31/95	Grinder Pumps	\$2,290	18	371	Melrose and Bloody Point
Wastewater	03/14/00	Grinder Pumps	\$10,850	18	371	Melrose and Bloody Point
Wastewater	05/28/02	Aerators	\$3,600	15	380	Bloody Point
Wastewater	05/30/02	Grinder pump rebuild	\$5,386	7	371	Melrose and Bloody Point
Wastewater	07/02/02	TS Industrial Repair	\$5,355	15	380	Melrose and Bloody Point
Wastewater	01/01/88	Treatment and collection systems	\$17,912	32	354	Bloody Point
Wastewater	01/01/88	Melrose Allocation of WWTF per Haig Point	\$318,952	32	354	Melrose
Wastewater	12/31/03	Lift Station Screens	\$1,427	25	304	Melrose and Bloody Point
Wastewater	12/31/03	Repairs to Lift Station 14	\$12,344	9	354	Melrose and Bloody Point
Wastewater	05/31/04	Piranha pumps (2)	\$2,165	18	371	Melrose and Bloody Point
Wastewater	08/01/03	Repairs to Melrose/Haig Point WWTF wet-well	\$23,400	16	354	Melrose/Haig Point WWTF
Wastewater	11/15/04	Master Lift Station repair/expansion	\$6,738	18	389	Melrose/Haig Point WWTF
Wastewater	11/30/04	Piranha pumps (4)	\$4,274	18	371	Melrose and Bloody Point
General	04/15/94	Office Furniture	\$1,193	15	390	Melrose and Bloody Point
General	08/01/99	Ford F-150	\$8,405	6	391	Melrose and Bloody Point
Total			\$564,239			

MUC Assets removed from depreciation expense by ORS

Asset		Purchase Price	Reason
Date Acquired	Description		
06/30/96	Equipment	-\$752	Equipment cannot be identified by MUC
07/31/96	Equipment	-\$6,833	Equipment cannot be identified by MUC
09/30/96	Equipment	-\$7,932	Equipment cannot be identified by MUC
01/31/97	Equipment	-\$17,745	Equipment cannot be identified by MUC
05/31/97	Equipment	-\$1,592	Equipment cannot be identified by MUC
06/30/97	Equipment	-\$863	Equipment cannot be identified by MUC
	WWTF Plant		
04/15/94	allocation	-\$6,004	Difference between the Haig Point allocation and the amount booked on MUC's GL
	Purchase		
04/15/94	Price	-\$2,926	Equipment cannot be identified by MUC
	Total	-\$44,647	

MELROSE UTILITY COMPANY, INC.
2004-74-WS
SERVICE REVENUE ANALYSIS
FOR TEST YEAR ENDING NOVEMBER 30, 2004

EXHIBIT DMH-6

ORS Test Year Bill Frequency Analysis: 12/01/03-11/30/04

Customer Classification	Bill Code	Customer # as of 11/30/04	Total Bills issued during test year (1)	Base Charge/Mo.	Base Charge/Quarter	ORS Calculated Base Charge Revenues	Billable Water Usage in Gallons (2)	Water Usage Revenue	Total ORS Calculated Revenue	MUC Reported Revenue (3)	Variance	% Increase/Decrease from Application
Water-Residential	W1	56	224	\$15.00	\$45.00	\$10,080	1,684,307	\$2,021	\$12,101	\$10,621	\$1,480	12%
Water-Commercial	W2	40	160	\$21.00	\$63.00	\$8,400	9,053,167	\$10,864	\$20,944	\$5,671	\$15,273	73%
Irrigation-Residential	W3	15	60	\$0.00	\$0.00	\$0	3,726,435	\$4,472	\$4,472	\$4,398	\$74	2%
Irrigation-Commercial	W4	18	72	\$0.00	\$0.00	\$0	7,597,114	\$9,117	\$9,117	\$10,170	(\$1,053)	-12%
Water-Minimum Use	W5	1	4	\$15.00	\$45.00	\$180	0	\$0	\$180	\$270	(\$90)	-50%
Water-Commercial/2 Units	W6	31	124	\$42.00	\$126.00	\$15,624	2,603,140	\$3,124	\$18,748	\$17,545	\$1,203	6%
Sewer-Residential	S1	56	224	\$15.00	\$45.00	\$10,080	1,678,587	\$1,611	\$11,691	\$12,293	(\$602)	-5%
Sewer-Commercial	S2	40	160	\$21.00	\$63.00	\$8,400	8,967,867	\$8,609	\$18,689	\$6,436	\$12,254	66%
Sewer-Commercial/2 Units	S3	31	124	\$42.00	\$126.00	\$15,624	2,603,140	\$2,499	\$18,123	\$17,058	\$1,065	6%
Sewer-Minimum Use	S5	1	4	\$15.00	\$45.00	\$180	0	\$0	\$180	\$270	(\$90)	-50%
Availability Fees - Melrose	AV-MR	240	960	\$30.00	\$90.00	\$86,400	0	\$0	\$86,400	\$47,790	\$38,610	45%
Availability Fees - Bloody Point	AV-BP	82	328	\$20.00	\$60.00	\$19,680	0	\$0	\$19,680	\$47,790	(\$28,110)	-143%
Totals						\$178,008	37,913,756	\$42,317	\$220,325	\$180,312	\$40,012	18%

ORS Bill Frequency Analysis at MUC Proposed Rates

Customer Classification	Bill Code	Customer # as of 11/30/04	Total Bills issued during test year (1)	Base Charge/Mo.	Base Charge/Quarter	ORS Calculated Base Charge Revenues	Billable Water Usage in Gallons (2)	Water Usage Revenue at Proposed Rates	Total ORS Calculated Revenue at Proposed Rates	MUC Proposed Revenue (4)	Variance	% Increase/Decrease from Proposed Revenue
Water-Residential	W1	56	224	\$25.00	\$75.00	\$16,800	1,684,307	\$2,982	\$19,782	\$18,300	\$1,482	8%
Water-Commercial	W2	40	160	\$33.00	\$99.00	\$15,840	9,053,167	\$12,765	\$28,605	\$14,058	\$14,547	103%
Irrigation-Residential	W3	15	60	\$0.00	\$0.00	\$0	3,726,435	\$4,472	\$4,472	\$7,800	(\$3,328)	-43%
Irrigation-Commercial	W4	18	72	\$0.00	\$0.00	\$0	7,597,114	\$9,117	\$9,117	\$15,048	(\$5,931)	-39%
Water-Minimum Use	W5	1	4	\$0.00	\$0.00	\$0	0	\$0	\$0	\$0	\$0	0%
Water-Commercial/2 Units	W6	31	124	\$66.00	\$198.00	\$24,552	2,603,140	\$3,964	\$28,516	\$14,058	\$14,458	103%
Sewer-Residential	S1	56	224	\$25.00	\$75.00	\$16,800	1,678,587	\$2,367	\$19,167	\$18,300	\$867	5%
Sewer-Commercial	S2	40	160	\$33.00	\$99.00	\$15,840	8,967,867	\$12,645	\$28,485	\$14,058	\$14,427	103%
Sewer-Commercial/2 Units	S3	31	124	\$66.00	\$198.00	\$24,552	2,603,140	\$3,670	\$28,222	\$14,058	\$14,164	101%
Sewer-Minimum Use	S5	1	4	\$0.00	\$0.00	\$0	0	\$0	\$0	\$0	\$0	0%
Availability Fees - Melrose	AV-MR	240	960	\$50.00	\$150.00	\$144,000	0	\$0	\$144,000	\$84,900	\$59,100	70%
Availability Fees - Bloody Point	AV-BP	82	328	\$50.00	\$150.00	\$49,200	0	\$0	\$49,200	\$84,900	(\$35,700)	-42%
Totals						\$307,584	37,913,756	\$51,982	\$359,566	\$285,480	\$74,086	26%

Comments:

- (1) Total number of invoices issued during the test year as computed by ORS.
- (2) Billable water usage as reported by MUC on the Master Activity Report for each billing period.
- (3) Revenue report by MUC in application Exhibit G and supported by MUC's General Ledger.
- (4) MUC's proposed revenue as provide in application Exhibit G. MUC combined several bill codes into generic billing groups.
- (5) Availability Fees are billed, collected and used as operating revenue and included in this analysis.

ORS Revenue Analysis: Comparison of ORS Calculated Test Year Revenue and Proposed Rate Revenue

Customer Classification	Bill Code	Customer # as of 11/30/04	Total Bills issued during test year (1)	ORS				Water Usage Revenue: Current Rates	Water Usage Revenue: Proposed Rates	Total ORS Calculated Revenue: Current Rates	Total ORS Calculated Revenue: Proposed Rates	Variance	% Increase/Decrease from Test Year Revenue
				ORS Calculated Base Charge Revenue: Current Rates	ORS Calculated Base Charge Revenue: Proposed Rates	Water Usage Revenue: Current Rates	Water Usage Revenue: Proposed Rates						
Water-Residential	W1	56	224	\$10,080.00	\$16,800.00	\$2,021	\$2,982	\$12,101	\$19,782	\$20,944	\$19,782	\$7,681	39%
Water-Commercial	W2	40	160	\$10,080.00	\$15,840.00	\$10,864	\$12,765	\$20,944	\$28,605	\$28,605	\$28,605	\$7,661	27%
Irrigation-Residential	W3	15	60	\$0.00	\$0.00	\$4,472	\$4,472	\$4,472	\$4,472	\$4,472	\$4,472	\$0	0%
Irrigation-Commercial	W4	18	72	\$0.00	\$0.00	\$9,117	\$9,117	\$9,117	\$9,117	\$9,117	\$9,117	\$0	0%
Water-Minimum Use	W5	1	4	\$180.00	\$0.00	\$0	\$0	\$180	\$0	\$180	\$0	(\$180)	0%
Water-Commercial/2 Units	W6	31	124	\$15,624.00	\$24,552.00	\$3,124	\$3,964	\$18,748	\$28,516	\$18,748	\$28,516	\$9,769	34%
Sewer-Residential	S1	56	224	\$10,080.00	\$16,800.00	\$1,611	\$2,367	\$11,691	\$19,167	\$11,691	\$19,167	\$7,475	39%
Sewer-Commercial	S2	40	160	\$10,080.00	\$15,840.00	\$8,609	\$12,645	\$18,689	\$28,485	\$18,689	\$28,485	\$9,796	34%
Sewer-Commercial/2 Units	S3	31	124	\$15,624.00	\$24,552.00	\$2,499	\$3,670	\$18,123	\$28,222	\$18,123	\$28,222	\$10,099	36%
Sewer-Minimum Use	S5	1	4	\$180.00	\$0.00	\$0	\$0	\$180	\$0	\$180	\$0	(\$180)	0%
Availability Fees - Melrose	AV-MR	240	960	\$86,400.00	\$144,000.00	\$0	\$0	\$86,400	\$144,000	\$0	\$144,000	\$57,600	40%
Availability Fees - Bloody Point	AV-BP	82	328	\$19,680.00	\$49,200.00	\$0	\$0	\$19,680	\$49,200	\$0	\$49,200	\$29,520	60%
Totals				\$178,008.00	\$307,584.00	\$42,317	\$51,982	\$220,325	\$359,566	\$220,325	\$359,566	\$139,241	39%

Comments:

- (1) Total number of invoices issued during the test year as computed by ORS.
- (2) Billable water usage as reported by MUC on the Master Activity Report for each billing period.
- (3) Revenue report by MUC in application Exhibit G and supported by MUC's General Ledger.
- (4) MUC's proposed revenue as provide in application Exhibit G. MUC combined several bill codes into generic billing groups.
- (5) Availability Fees are billed, collected and used as operating revenue and included in this analysis.

DOCKET: 2005-74-WS

**PROPOSED RATE STRUCTURE COMPARISON
FOR TEST YEAR ENDING NOVEMBER 30/2004**

Proposed Residential Rate Structure Comparison

Proposed residential rate structure comparison										
Customer Classification	Service Type	Billing Unit of Measure	Base Charge			Consumption Charge				
			Current Base Monthly Rate (1)	MUC Proposed Base Monthly Rate	Total Amount of Increase	Percent Increase	Current Consumption Rate (2)	MUC Proposed Consumption Rate	Total Amount of Increase	Percent Increase
Residential	Water	per month	\$15.00	\$25.00	\$10.00	66.67%	\$1.20	\$1.77	\$0.57	47.50%
	Sewer	per month	\$15.00	\$25.00	\$10.00	66.67%	\$0.96	\$1.41	\$0.45	46.88%
	Irrigation (0-7,500 gallons/month)	per 1,000 gallons	\$0.00	\$0.00	\$0.00	0.00%	\$1.20	\$1.20	\$0.00	0.00%

Proposed Commercial Rate Structure Comparison

Proposed Commercial Rate Structure Comparison										
Customer Classification	Service Type	Billing Unit of Measure	Base Charge			Consumption Charge				
			Current Base Monthly Rate (1)	MUC Proposed Base Monthly Rate	Total Amount of Increase	Percent Increase	Current Consumption Rate (2)	MUC Proposed Consumption Rate	Total Amount of Increase	Percent Increase
Residential	Water	per month	\$21.00	\$33.00	\$12.00	57.14%	\$1.20	\$1.41	\$0.21	17.50%
	Sewer	per month	\$15.00	\$25.00	\$10.00	66.67%	\$0.96	\$1.41	\$0.45	46.88%
	Irrigation (0-7,500 gallons/month)	per 1,000 gallons	\$0.00	\$0.00	\$0.00	0.00%	\$1.20	\$1.20	\$0.00	0.00%

Proposed Other Rate Structure Comparison

Customer Classification	Service Type	Treatment Type	Billing Unit of Measure	Current Rate	MUC Proposed Rate	Amount of Increase	Percent Increase
Residential	Water	Tap Fee/Meter Box	each	\$500.00	\$650.00	\$150.00	30.00%
	Sewer	Tap Fee and Service Lateral	each	\$500.00	\$800.00	\$300.00	60.00%
Commercial		Tap Fee - Hotel/Inn Room	each	\$250.00	\$250.00	\$0.00	0.00%
	Water	Tap Fee - Cottage	each	\$400.00	\$400.00	\$0.00	0.00%
	Water	Tap Fee - <1.5" Meter	each	\$500.00	\$650.00	\$150.00	30.00%
	Water	Tap Fee - 2"-3" Meter	each	\$1,500.00	\$1,800.00	\$300.00	20.00%
	Water	Tap Fee - 6" Meter	each	\$3,500.00	\$4,000.00	\$500.00	14.29%
	Sewer	Tap Fee - Hotel/Inn Room	each	\$250.00	\$250.00	\$0.00	0.00%
All Classifications	Sewer	Tap Fee - Cottage	each	\$400.00	\$400.00	\$0.00	0.00%
	Sewer	Tap Fee 4- 6" Lateral	each	\$500.00	\$650.00	\$150.00	30.00%
		Impact Fee	each	System Buy-in Pricing applies	System Buy-in Pricing applies		

Notes

- (1) Current Base Monthly Rate includes a minimum water usage allowance of 7,500 gallons/month.
(2) Current consumption rate is applied to monthly water/sewer usage over 7,500 gallons.

MELROSE UTILITY COMPANY, INC.

EXHIBIT DMH - 8

2005-74-WS

ALTERNATE OPERATING MARGIN COMPARISON
FOR TEST YEAR ENDING NOVEMBER 30, 2004

Revenue Alternates	Service Type	Revenue Requirement (1)	Availability Fees	Irrigation Revenue	Test Year Residential and Commercial Water/Sewer Revenue	Approximate Annual Residential and Commercial Water/Sewer Revenue Increase Amount	Approximate Amount of Quarterly Billing Increase per Water/Sewer Customer (2)
Operating Margin @ 10.00%	Residential and Commercial Water/Sewer	\$309,900	\$193,200	\$13,589	\$100,657	\$2,454	\$2
Operating Margin @ 12.00%	Residential and Commercial Water/Sewer	\$318,900	\$193,200	\$13,589	\$100,657	\$11,454	\$11
Operating Margin @ 15.00%	Residential and Commercial Water/Sewer	\$334,750	\$193,200	\$13,589	\$100,657	\$27,304	\$27
Operating Margin @ 18.72%	Residential and Commercial Water/Sewer	\$359,566	\$193,200	\$13,589	\$100,657	\$52,120	\$51

Comments:

- (1) Revenue Requirement calculated by Audit Department.
- (2) Amount of Quarterly increase for water and sewer service to residential and commercial customers.
- (3) Actual impact to customer rates dependant on revenue requirement approved by PSC.